

# **The Economic Contribution of Infrastructure Construction to Maricopa County**

Statement to  
Maricopa Association of Governments

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Good morning. My name is Ken Simonson. I am the chief economist for the Associated General Contractors of America (AGC), the leading trade association for the construction industry. AGC's 26,000 member companies perform every type of construction other than single-family homebuilding, and also include suppliers of every type of equipment, goods and services used in construction. Companies belong through a network of 92 chapters that blanket the country, including the Arizona Chapter-AGC, which represents highway, transit and other infrastructure construction firms; and the Arizona Builders' Alliance, representing contractors that construct nonresidential and multifamily buildings.

It is a privilege to be able to speak to this committee about the contribution your exciting and ambitious plans for expanding Maricopa County's road and transit infrastructure will make to the region's economy.

There are two important types of economic contributions that infrastructure investments make. First are the direct, indirect and induced jobs and the so-called multiplier from the spending itself. While these benefits are substantial, more important and longer lasting are the benefits from the assets that the projects create. It is these benefits that distinguishes infrastructure spending from other types of so-called stimulus.

In 2009, AGC commissioned a report on the economic impact of nonresidential construction investment from Professor Stephen Fuller, at the time head of George Mason University's Center for Regional Analysis and now head of the university's Stephen S. Fuller Institute for Research on the Washington Region's Future Economy. He found that \$1 billion invested in nonresidential construction supported about 28,500 jobs. Roughly one-third of those jobs were direct construction jobs—onsite craft and supervisory jobs, as well as

management and support positions in the offices of general contractors and subcontractors working directly on the project.

Approximately one-sixth of the jobs were indirect jobs throughout the supply chain for construction. These jobs range from quarries and sand and gravel pits; to manufacturers of equipment and materials that go into the structures, such as steel and concrete, or are consumed by contractors, such as diesel fuel; to a wide range of services, such as design, leasing and other financial services, testing and quality assurance. Those jobs cannot be directly traced but are identifiable through reputable economic models such as that used by Dr. Fuller.

The remaining half of the jobs are known as induced jobs. These jobs occur in all parts of the economy as the workers and owners of the construction and supplying businesses spend their additional wages, salaries, dividends and profits. Some of the induced jobs may be readily traceable to the construction, such as a coffee shop across from a job site that adds staff to handle the construction crowd. But most of the jobs are likely to be much less directly connected in location or time to the project itself.

Once the spending on the project works through the multiple layers of construction, supplier and more remote businesses, the ultimate impact on economic activity is estimated to be about 3.4 times the initial investment. About one-third of this total shows up in personal income, such as wages, salaries and profit-type income. The rest is diffused through the business sector and in government revenues, such as additional personal and corporate income taxes, sales and excise taxes.

How much of this additional economic activity supports the local economy varies according to the region's economic base, materials used, and other factors. In an economy as large and diversified as Maricopa County, many of the materials are likely to be produced locally or nearby. The construction workers themselves will largely be local, or at least will spend much of their project-related earnings in the local economy while they sleep and eat here.

As significant as these benefits are in supporting jobs and adding to economic activity throughout the region, the most compelling reason for undertaking these investments is the impact they will have on the region's quality of life, productivity and economic competitiveness.

In 2016 Maricopa County added more than 81,000 residents, by far the most of any county in the U.S. (Harris County, Texas, home of Houston, was a distant second with 56,000.) Phoenix topped all other cities in the country with 32,000 more residents than a year earlier.

Those numbers attest to the vitality of the region but also to the urgency of adding highway and transit capacity to help residents, visitors and businesses. For instance, the estimated travel time savings from building the South Mountain Freeway and I-10 expansion amounts to 266,000 hours per day. Even assigning a very conservative value of \$10 per hour implies a saving of \$1 billion every year for the life of the projects. Savings of those magnitudes deliver a benefit-cost ratio that is hard to match with any other type of public or private expenditure. Conversely, without these investments, the region will either choke on the growth in travel time, air pollution and decline in safety, or the population growth that has fueled the economic rebound will stall.

The job estimates that Professor Fuller produced pertained to a period of much higher unemployment than is the case today, where the national unemployment rate in May reached a 16-year low of 4.3%, seasonally adjusted, and the state rate has been at a nine-year low of 5.0% since last October. Thus, additional investments today may be more likely to induce workers to move from one industry or location to another than to bring down unemployment.

However, this should be less of a concern in Arizona, and specifically in Maricopa County, than in many places. Although the unemployment rate in April in both Maricopa County and the Phoenix-Mesa-Scottsdale metro area was just 3.9%, not seasonally adjusted, the high level of population growth should enable the region to accommodate additional construction spending on the scale of the approved highway and transit projects—plus activity to provide housing, schools and other facilities for the new residents.

In summary, these transportation infrastructure investments will generate significant numbers of new jobs—in construction, in supplying industries, and throughout the economy, including locations not in the immediate vicinity of the construction activity. But the primary reason for undertaking the investments is the long-term vitality of the entire county that will result from better connectivity locally and with the rest of the Southwest.

Thank you for your time. Now, I welcome your questions.